UNITED STATES MARINE CORPS
Financial Management School
Marine Corps Combat Service Support Schools
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STUDENT OUTLINE

INTERNAL MANAGEMENT CONTROL PROGRAM

1. INTERNAL MANAGEMENT CONTROL

a. Internal Management control is defined as the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained and fairly disclosed in reports.

b. The objective of Internal Management Control is to reduce "the potential for organizational waste, abuse, mismanagement, fraud, and unfavorable public opinion." Internal controls are operational checks and balances that prevent loss due to fraud, waste, abuse, and mismanagement. Internal controls are not limited to the work setting. Our everyday life is surrounded with controls. For example:

- Smoke Detectors
- Tamper-Resistant Pharmaceutical Packaging
- Seat Belts
- Screening Baby-sitters
- Competitive Estimates on House Repairs

c. Some examples of internal controls in the work setting are:

TYPE OF CONTROL	EXAMPLE
- Documentation	- Written procedures for receipt of shipments
- Records	- Inventory of property against property log
- Authorizations	- Verification that an authorized individual has signed for the receipt of a shipment
- Structure	- Use of different personnel to perform the ordering and receiving functions

- Supervision	- Weekly reviews of inventory logs and property book
- Security	- Not allowing parking around or near receiving docks or warehouses

2. **BACKGROUND** Various statutes and regulations give federal agency heads responsibility for establishing and maintaining adequate internal controls.

a. Accounting and Auditing Act of 1950. In 1950, the Accounting and Auditing Act was passed requiring, among other things, that agency heads establish and maintain effective systems of internal control.

b. OMB Circular A-123 (1981, revised 1983). Prescribes policies and standards for evaluating, improving, and reporting on internal controls. OMB Circular A-123 states all levels of management must establish controls which provide reasonable assurance that all functions, programs and resources are accounted for in an effective and efficient manner while minimizing exposure to fraud, waste, abuse, mismanagement, or unfavorable public opinion.

c. Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b)). It assigned management with the primary responsibility for review and improvement of management controls and provides detailed guidance for evaluating, improving, and reporting on internal controls.

d. SECNAVINST 5200.35. Established the Department of the Navy (DON) program to develop, maintain, review and improve internal control systems, thereby implementing OMB Circular A-123, and the Acts as discussed above, to ensure DON resources are efficiently and effectively managed.

e. MCO 5200.24. MCO 5200.24_ prescribes, policies, procedures, and reporting requirements for the Marine Corps Internal Management Control Program and streamline the program through paperwork reduction. An effective Internal Control Program reduces the potential for fraud, waste, abuse, mismanagement, and unfavorable public opinion affecting the Marine Corps.

3. **GENERAL ACCOUNTING OFFICE (GAO) INTERNAL CONTROL STANDARDS**

These standards define the minimum level of quality acceptance for internal control systems in operation and constitute the criteria against which the systems are to be evaluated. These internal controls standards apply to all operations and administrative functions but are not intended to limit or interfere with duly granted authority related to development of legislation, rulemaking, or other discretionary policy making in an agency.

a. GENERAL STANDARDS. There are five general standards developed by GAO to evaluate internal control systems as follows:

(1) Reasonable assurance. Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished. The standard of reasonable assurance recognizes that the cost on internal control should not exceed the benefit derived. Reasonable assurance equates to a satisfactory level of confidence under given considerations of costs, benefits, and risks. The required determinations call for judgment to be exercised. In exercising that judgment agencies should:

- Identify risks inherent in agency operations.
- Identify criteria for determining low, medium, and high risks.
- Identify acceptable levels of risk under varying circumstance.
- Assess risks both quantitatively and qualitatively.

Cost refers to the financial measure of resources consumed in accomplishing a specific purpose. Cost can also represent a lost opportunity, such as a delay in operations, a decline in service levels or productivity, or low employee morale. A benefit is measured by the degree to which the risk of failing to achieve a stated objective is reduced.

(2) Supportive attitude. Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times. This standard requires agency managers and employees to be attentive to internal control matters and to take steps to promote the effectiveness of the controls. Attitude affects the quality of performance and, as a result, the quality of internal controls. A positive and supportive attitude is initiated and fostered by management and is ensured when internal controls are a consistently high management priority. An important way for management to demonstrate its support for good internal controls is its emphasis on the value of internal auditing and its responsiveness to information developed through internal audits. The operations of an agency, provides it management with the overall framework for planning, directing, and controlling its operations. Good internal control requires clear lines of authority and responsibility; appropriate reporting relationships; and appropriate separation of authority.

(3) Competent personnel. Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good controls. This standards requires managers and their staff to maintain and demonstrate:

- Personal and professional integrity.
- A level of skill necessary to help ensure effective performance.
- An understanding of internal controls sufficient to effectively discharge their responsibilities.

(4) Control objectives Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete. This standard requires that objectives be tailored to an agency's operations. All operations of an agency can generally be grouped into one or more categories called cycles. Cycles comprise all specific activities (such as identifying, classifying, recording and reporting information) required to process a particular transaction or event. Cycles should be compatible with an agency's organization and division of responsibilities. Cycles can be categorized in various ways. For example:

- Agency management.
- Financial.
- Program (operational).
- Administrative.

Agency Management cycles cover the overall policy and planning, organization, data processing, and audit functions. Financial cycles cover the traditional control areas concerned with the flow of funds (revenues and expenditures), related assets, and financial information. Program (operational) cycles are those agency activities that relate to the mission(s) of the agency and which are peculiar to a specific agency. Administrative cycles are those agency activities providing support to the agency's primary mission, such as library services, mail processing and delivery, and printing. The four types of cycles obviously interact, and controls over this interaction must be established.

(5) Control techniques. Control techniques are to be effective and efficient in accomplishing their control objective. Internal control techniques are the mechanisms by which control objectives are achieved. Techniques include, but are not limited to, such things as specific policies, procedures, plans of organization (including separation of duties), and physical arrangements (such as locks and fire alarms). This standard requires that internal control techniques continually provide a high degree of assurance that the internal control objectives are being achieved.

b. SPECIFIC STANDARDS. A number of techniques are essential to providing the greatest assurance that the internal control objectives will be achieved. these critical techniques are the specific standards discussed below.

(1) Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation shall be readily available for examination. This standard requires written evidence of:

- An agency's internal control objectives and techniques and accountability systems.
- All pertinent aspects of transactions and other significant events of an agency.
- The documentation must be available as well as easily accessible for examination.

Documentation of internal control systems should include identification of the cycles and related objectives and techniques, and should appear in management directives, administrative policy, and accounting manuals.

(2) Recording of transactions and events. Transactions and other significant events shall be recorded promptly and classified properly. Transactions must be promptly recorded if pertinent information is to maintain its relevance and value to management in controlling operations and making decisions. This standard applies to:

- The entire process or life cycle of a transaction or event and includes the initiation and authorization.
- All aspects of the transaction while in process.
- Its final classification in summary records.

(3) Execution of transactions. Transactions and other significant events are to be authorized and executed only by a person acting within the scope of authority. This standard deals with management's decisions to exchange, transfer, use, or commit resources for specified purposes under specific conditions. It is the principal means of assuring that only valid transactions and other events are entered into. Authorization should be clearly communicated to managers and employees and should include the specific conditions and terms under which authorizations are to be made.

(4) Separation of duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals. To reduce the risk of error, waste, or wrongful acts of to reduce the risk of their going undetected, no one individual should control all key aspects of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(5) Supervision. Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. This standard requires supervisors to continuously review and approve the assigned work of their staff. It also requires that they provide their staffs with the necessary guidance and training to help ensure that errors, waste, and wrongful acts are minimized and that specific management directives are achieved. Assignment, review, and approval of a staff's work requires:

- Clearly communication the duties, Responsibilities, and accountabilities assigned each staff member.
- Systematically reviewing each member's work to the extent necessary.
- Approving work at critical points to ensure that work flows as intended.

(6) Access to resources. Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the

comparison shall be a function of the vulnerability of the asset. The basic concept behind restricting access to resources is to help reduce the risk to of unauthorized use of loss to the Government, and to help achieve the directives of management. However, restricting access to resources depends upon the vulnerability of the resources and the perceived risk of loss, both of which should be periodically assessed. For example, access to and accountability for highly vulnerable documents, such as check stocks, can be achieved by:

- Keeping them locked in a safe.
- Assigning or having each document assigned a sequential number.
- Assigning custodial accountability to responsible individuals.

c. Audit Resolution Standard (Prompt Resolution of Audit Findings):

Managers are to :

- Promptly evaluate findings and recommendations reported by auditors;
- Determine proper actions in response to audit findings and recommendations, and;
- Complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

The audit resolution standard requires managers to take prompt, responsive action on all findings and recommendations made by auditors. Responsive action is that which corrects identified deficiencies. Where audit findings identify opportunities for improvement rather than cite deficiencies, responsive action is that which produces improvements. The audit resolution process begins when the results of an audit are reported to management, and is completed only after action has been taken that:

- Corrects identified deficiencies.
- Produces improvements.
- Demonstrates the audit findings and recommendations are either invalid or do not warrant management action.

4. **ASSESSABLE UNITS** The first step in the internal management control program is to identify your assessable units. Assessable units are defined as any organizational function, program, resource or appropriate entity possessing sufficiently distinct characteristics of risk and control to warrant performance of a vulnerability assessment.

a. Assessable units are what you want them to be. You decide how many you need to cover all of the functions you perform, all of the programs for which you are responsible and the resources you use to carry out your job.

b. You can review your table of organization, mission statements and other organization documents to determine what functions, programs, and resources are

assigned to your area (auditors will review these documents when evaluating if you have identified all of your assessable units). Examples of assessable units are:

- Accounting Office:

Assessable Units:	Disbursing Notification Records Unit
	Material and Services Unit
	Interdepartmental Billing Unit
	Computer Security
	Civilian Payroll Unit

- Personnel Office:

Assessable Units:	Accounting for Leave Unit Diary Entries
	Allotments ID Cards Meal Cards Variable Housing
	Allowance BAQ Comrats Service Record Books

5. **VULNERABILITY ASSESSMENT** A brief management evaluation of the susceptibility of an organizational program, function or resource to fraud, waste, abuse, or mismanagement. The evaluation is done by the responsible manager based on existing knowledge and experience.

a. Vulnerability Assessments should not involve a large expenditure of staff resources. During the Vulnerability Assessment you make a brief management evaluation regarding the susceptibility of an assessable unit to mismanagement, unauthorized use, illegal acts, etc. Remember, the Vulnerability Assessment is not intended to be a full examination of internal controls.

b. Vulnerability assessments will be documented using the Vulnerability Assessment Form Worksheet, NAVCOMPT Form 2283. A sample form is located in your practical application number 2. The vulnerability assessment form is divided into 3 parts:

(1) Analyst of the general control environment
(2) Analysis of inherent risk
(3) Preliminary assessment of safeguards

c. Vulnerability assessments must be performed at least once every five years on all assessable units and within 120 days of new assessable units. The base year for the 5-year cycle was 1988. So the next 5-year cycle will began in 1993.

VA rating	ICR performed
High	Within the first 2 years of being identified
Medium	Over the 5 year period
Low	At the unit's discretion, optional

d. The third step will be to generate a 5 year Internal Control plan based on the results of the vulnerability assessments.

6. **INTERNAL CONTROL EVALUATION** A detailed examination of an assessable unit to determine if adequate controls exist and are implemented in a cost effective manner. Internal control evaluations are of two general types:

a. Internal Control Review (ICR): A comprehensive examination of all or part of an assessable unit by the responsible manager to determine the adequacy of controls and to identify and correct deficiencies/weaknesses. This type of review utilizes the methodology specified in the OMB guidelines for the Evaluation and Improvement of and Reporting on Internal Controls in the Federal Government.

b. Alternate Internal Control Review (AICR). A process using the results of audits, computer security reviews, financial system reviews, inspections, investigations, TQL process action team results, or studies to determine the overall compliance with the GAO Internal Controls standards and to identify and correct weakness/deficiencies in the internal control system. Testing and controls must be accomplished.

7. **REQUIRED REPORTS** You have two reports that must be prepared and submitted to CMC, HQMC, Code (FDR):

a. Results of Internal Control Evaluation: This is a semiannual report due at CMC not later than 15 March and 15 September. This report is used to identify new material weaknesses discovered in the current semiannual reporting period for which corrective actions have not been fully completed and to provide a status on material weakness' identified in previous reporting periods until all corrective actions are complete. If a new material weakness was both identified and fully corrected in the current semiannual reporting period it will not be included here, but reported as an accomplishment in the letter of transmittal. A sample report is shown in MCO 5200.24_, enclosure (6).

b. Results of Vulnerability Assessments and Internal Control Plan: This is an annual report due at CMC not later than 15 September each fiscal year. This report is a summary report of the vulnerability assessment results of the assessable units and a scheduled 5-year Internal Control Evaluations plan. A sample report is shown in MCO 5200.24_, enclosure
(3).

8. **COMMAND RESPONSIBILITY**

a. Implement Management Control Program.

b. Assign responsibility internally and ensure accountability and performance are documented in fitness reports/performance appraisals.

c. Perform vulnerability assessments every 5 years and on new programs within 120 days.

d. Perform Management Control Evaluations (ongoing basis).

e. Report Material Weakness.

f. Document the process.

g. The philosophy of the program is that each manager will implement systems of internal controls and at least once every 5-years evaluate these controls to determine if they are effective, need improvement, or should be deleted.

h. Managers will correct identified internal control weakness and report identified "material weakness" via the chain of command.

i. The responsibility for performing the vulnerability assessments and internal control reviews belongs to each individual manager and should not be delegated to any one individual or organization at the command.

j. The functional managers are in the best position because of their knowledge of the function, to determine the vulnerability to fraud, waste, and abuse of their functions. The process must be sufficiently documented for auditors and Department of Defense, Department of the Navy, and Marine Corps Internal Control Quality Assurance teams to verify that the requirements of the internal management control program are being accomplished.

9 . **PROGRAM RESPONSIBILITIES**

a. The objective of the internal management control program is to reduce the potential for fraud, waste, abuse, mismanagement and unfavorable public opinion affecting the USMC. This definition inherently implies that management will immediately become aware of their real mission and objectives, evaluate existing controls and thereby identify any serious problems. It also implies that improvement of existing controls will result.

b. Each command will establish a central focal point for coordination and oversight of the program. It is recommended that the coordinator be within the Comptroller Department, specifically the Resource, Evaluation, and Analysis Division. The coordinator will be responsible for organizing the program to include:

(1) compiling a list of assessable units.

(2) ensuring that civilian and military managers and leaders responsible for systems of internal control are identified and documented at appropriate levels and that performance appraisal systems reflect performance of the GAO standards for Internal Controls.

(3) ensure that vulnerability assessments are performed on all assessable units.

(4) developing the command's 5 year internal control plan.

(5) submitting required reports to Commandant of the Marine Corps (CMC).

(6) retaining copies of reports submitted to CMC and all related documentation (i.e. VA worksheets, Internal Control Reviews (ICR), Alternate Internal Control Reviews (AICR)) supporting the data submitted on the reports for 5 years from the date of submission.

(7) ensuring that all managers have received proper program training and assistance when requested

(8) establishing local quality assurance procedures to ensure the internal management control has been fully implemented

REFERENCES:
1. MCO 5200.24